

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

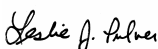
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

City of Lathrup Village, Michigan

Financial Report with Supplemental Information June 30, 2006

Frank M. Brock, Jr., Mayor
Allen Weaks, Mayor Pro-Tem
Maria Mannarino Thompson, Council Member
Renee McClain, Council Member
Kyrian Nwagwu, Council Member
Jeffrey Mueller, City Administrator

City of Lathrup Village, Michigan

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Independent Auditor's Report

To the City Council
City of Lathrup Village, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lathrup Village, Michigan as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Lathrup Village, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lathrup Village, Michigan as of June 30, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

September 8, 2006

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City of Lathrup Village, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Lathrup Village, Michigan's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the City's financial statements.

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

The following is an expanded discussion of the concept touched upon earlier in this analysis and includes this year's financial statement format and information about government-wide financial statements and fund financial statements.

Government-wide Financial Statements

The government-wide financial statements report information about the City as a whole using accounting methods similar to those used by the private sector. The statement of net assets includes all of the City's assets and liabilities. One of the major differences between the government-wide statements and the fund financial statements is the inclusion of depreciation in the government-wide statements. As with last year, we saw an increase in net assets. Net assets increased by \$834,759. The government-wide financial statements of the City are divided into three categories. These three categories will be discussed in more specificity later in this MD&A.

Governmental Activities - Most of the City's basic services are included here and are commonly referred to the "General Fund budget." Property taxes, state-shared revenues, and our "other revenues" are the primary source of funding for General Fund operations. Also included in this category are major and local streets and the Capital Acquisition Fund.

Business-type Activities - Commonly referred to as an Enterprise Fund, the activities shown under this category are related to our water and sewer budgets. These activities are funded through user fees in the form of water and sewer rates, meter charges, industrial surcharges, and capital projects fees.

Component Units - The City has one component unit, the Downtown Development Authority (the "DDA"). Although legally separate, this component unit is important because the City is financially accountable for it, including any debt, which would be issued on behalf of the DDA by the City. As presented in the financial statements, the DDA does not have any debt, and does not anticipate any debt service in the near future, (although the DDA could possibly bond for the cost of the proposed boulevard in 2009.)

City of Lathrup Village, Michigan

Management's Discussion and Analysis (Continued)

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds - not the City as a whole. Funds are accounting tools that the City uses to keep track of specific sources of revenues and expenditures for particular purposes. Some funds are required by state law and bonding requirements. Other funds are established to control and manage money for particular purposes.

The City has three kinds of funds:

Governmental Funds - Most of the City's basic services are included in governmental funds, which focus on how cash and other financial assets that can be converted to cash, flow in and out, and the balance left at year end that is available for spending. The governmental fund statements provide a detailed short-term view that helps the reader determine if there are more or fewer financial resources available to spend in the near future to finance the City's programs. In the annual budget, we refer to our funds as the General, Major Streets, Local Streets, Capital Acquisitions, and although a proprietary fund, the Water and Sewer Funds.

Proprietary Fund - Services that are intended to be entirely self-supporting by customer usage fees are reported as proprietary funds. As mentioned above, this would be our Water and Sewer Funds. Proprietary fund statements, such as government-wide statements, provide both short- and long-term financial information.

Fiduciary Funds - The City is responsible for ensuring that the assets in these funds are used for their intended purposes. These activities are excluded from the government-wide financial statements because the City cannot use these assets to finance its operations. An example of this type of fund would be pension fund money.

Financial Highlights

The following represents the most significant financial highlights for the year ended June 30, 2006:

- State-shared revenues have been in the forefront of discussions over the past three fiscal years. State-shared revenues, which are the City's second largest single-source revenue, saw a reduction of \$3,159 as compared with the 2004-2005 fiscal year. This continues the five-year trend of reduced revenue sharing.
- Property tax and related revenues increased by \$219,653, or 8.3 percent, as compared to the 2004-2005 fiscal year.
- Total General Fund revenues were \$570,582 more than the prior year.
- On a positive note, the City was still able to realize a \$275,942 surplus.

City of Lathrup Village, Michigan

Management's Discussion and Analysis (Continued)

- Overall, General Fund expenditures were \$47,087 higher than the prior year. Expenditures for the fiscal year were \$61,690 less than the amended budget.
- It should be noted that through the hard work of staff and the City Council, we have been able to bring our budget in on a generally positive note.

The City as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Assets						
Current assets	\$ 3.2	\$ 3.3	\$ 0.9	\$ 0.8	\$ 4.1	\$ 4.1
Noncurrent assets	14.0	13.7	7.5	7.5	21.5	21.2
Total assets	17.2	17.0	8.4	8.3	25.6	25.3
Liabilities						
Current liabilities	0.2	0.9	0.1	0.7	0.3	1.6
Long-term liabilities	0.4	0.4	2.1	2.1	2.5	2.5
Total liabilities	0.6	1.3	2.2	2.8	2.8	4.1
Net Assets						
Invested in capital assets -						
Net of related debt	13.7	13.4	5.2	4.7	18.9	18.1
Restricted	0.7	0.6	0.5	0.4	1.2	1.0
Unrestricted	2.2	1.7	0.5	0.4	2.7	2.1
Total net assets	<u>\$ 16.6</u>	<u>\$ 15.7</u>	<u>\$ 6.2</u>	<u>\$ 5.5</u>	<u>\$ 22.8</u>	<u>\$ 21.2</u>

The City's combined net assets are \$22.8 million as compared to \$21.2 million for the prior year. This represents a 7.55 percent increase. The governmental activities portion of net assets increased \$.9 million, or 5.73 percent, while the business activities increased by \$.7 million, or 12.73 percent.

It should be noted that overall our net assets for our primary operations, governmental activities, have increased. If we look at the unrestricted net assets, the part of net assets that can be used to finance the day-to-day operations, we see there was an increase from 2004-2005 of \$.5 million.

City of Lathrup Village, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the major revenues and expenditures as a whole for both the governmental and business-type activities (in thousands of dollars). The bottom of the table shows the changes in net assets during the current year compared to prior year.

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenue						
Program revenue:						
Charges for services	\$ 0.5	\$ 0.4	\$ 1.1	\$ 1.1	\$ 1.6	\$ 1.5
Operating grants and contributions	0.3	0.3	-	-	0.3	0.3
Capital grants and contributions	0.1	-	-	-	0.1	-
General revenue:						
Property taxes	2.9	2.6	0.6	0.7	3.5	3.3
State-shared revenue	0.4	0.4	-	-	0.4	0.4
Cell tower fees	0.2	0.1	-	-	0.2	0.1
Transfers and other revenue	0.1	0.1	0.1	-	0.2	0.1
Total revenue	4.5	3.9	1.8	1.8	6.3	5.7
Program Expenses						
General government	1.1	1.2	-	-	1.1	1.2
Public safety	1.5	1.5	-	-	1.5	1.5
Public works	0.9	1.0	-	-	0.9	1.0
Recreation and culture	0.1	0.1	-	-	0.1	0.1
Water and sewer	-	-	1.1	1.2	1.1	1.2
Total program expenses	3.6	3.8	1.1	1.2	4.7	5.0
Change in Net Assets	\$ 0.9	\$ 0.1	\$ 0.7	\$ 0.6	\$ 1.6	\$ 0.7

Governmental Activities

As you read through the next several paragraphs, it is important to remember that governmental activities not only include the General Fund, but also the Major and Local Streets Fund and the Capital Acquisition Funds. The chart shown above was generated by pulling data from page 10 of the financial report. Therein you will find specific breakout data for the General, Major and Local Streets, and Capital Acquisition Funds, which is shown under the "other nonmajor governmental funds" column. This column corresponds to pages 11-12 of the financial report.

City of Lathrup Village, Michigan

Management's Discussion and Analysis (Continued)

The City's governmental revenues totaled \$4.5 million, with the largest revenue source being property taxes. Property tax revenues represent 65 percent of total governmental revenue. This percentage of total revenues has been relatively consistent over the past several fiscal years.

Our next largest single source of revenue is state-shared revenues. These revenues total \$.39 million. As has been previously mentioned, this source of revenue continues to decline as the State of Michigan addresses its financial shortfalls.

The charges for services category, referred to as "other revenues" in our budget, is a listing of many other smaller revenue sources. Combined with the cell tower lease revenue, which is included in the other revenue category, the total for these revenues is \$.21 million. Our "other revenue" category saw some one-time payments which gave us additional revenues which we probably will not see in the future. These included payments previously owed from cell tower leases, sale of the Somerset property, etc. We should see the "other revenue" category settle back into more of a historical pattern for 2006-2007. On a positive note, we saw our interest revenue increase from \$58,717 in 2004-2005 to \$143,449 for 2005-2006.

Finally, the operating grants and contributions total \$305,186 and reflect Act 51 funds for our major and local streets. Act 51 funding has been fairly stable over the past four fiscal years. We are unaware of any significant changes at the State level that will negatively affect this revenue in the near future.

Typical of other communities in the area, a heavier reliance on property taxes will continue to pressure our tax base. The flattening of our revenues, being nearly 100 percent developed, and coupled with the limitations on property tax growth due to Proposal A and Headlee, requires us to be cautious as we move forward.

Total governmental expenditures for the City totaled \$3.7 million. Revenues exceeded expenditures by \$.9 million.

From an overall perspective, despite anticipated flattening revenues and expected expenditures that are growing at a faster pace than revenues, we continue to remain in good financial standing. The budgetary reductions implemented as a part of the last few years have aided us in this effort. Since we are a service provider, the majority of our expenditures are for personnel. Therefore it is imperative we maintain an open and cooperative spirit with our employee unions and continually review the cost of doing business in order to provide services in a cost-effective manner.

City of Lathrup Village, Michigan

Management's Discussion and Analysis (Continued)

Business Activities

The City's business-type activity consists of the Water and Sewer Fund. We provide water as a part of the Southeastern Oakland County Water Authority (SOCWA), which in turn purchases water from the Detroit Water and Sewerage Department. Sewage treatment is provided through the Evergreen-Farmington sewage disposal system through the Oakland County Drain Commission, which is a customer of the Detroit Water and Sewerage Department.

System revenues are provided primarily through the fees paid by consumers based on actual metered water usage. Also, within this fund is the debt service millage for the retirement of bonds for the construction of Phase II Abatement projects undertaken by the City in the late 1980s.

The business-type activity revenues totaled approximately \$1.8 million. Of this \$1.8 million, \$1.1 million was from water and sewer rates, and \$.6 million was from debt service millage. Taking expenditures into consideration totaling \$1.1 million, there was a positive net asset increase of \$.7 million.

Capital Assets and Debt Administration

At the end of fiscal year 2005-2006, the City has \$21.3 million invested in a wide range of capital assets, including land, buildings, equipment, roads, and water and sewer lines. This is the third year that such reporting has occurred with such specificity and is attributable to GASB 34 requirements.

Debt of \$2.30 million is related to the Segment II sewer projects of the late 1980s and the building improvements made in 1996. Debt service for the Evergreen-Farmington Phase II projects will be retired in 2010 and the building bonds will be retired in 2012. Depending on the work that will be required on our sanitary sewers (as required by the MDEQ), it could be prudent to review possible sale of bonds to finance work if needed. This could coincide with the retirement of existing bonds.

General Fund Budgetary Highlights

Over the course of the fiscal year, the City administration and City Council monitor and, if necessary, amend the budget to prevent expenditures in excess of budget as required by the State of Michigan Budget Act. The audited numbers included \$58,272 more revenue than the final amended budget and \$448,765 more than the original budget, \$61,690 less in expenditures than the final amended budget, and \$6,628 more than the original budget.

From a General Fund revenue perspective, the City received more revenue than anticipated. The increase in revenue came from the following revenues: collection of delinquent cell tower revenue (\$112,718), recreational programs (\$22,390), increased retiree insurance spouse payments (\$11,251), and sale of the Somerset property (\$35,500).

City of Lathrup Village, Michigan

Management's Discussion and Analysis (Continued)

It has been the City's history of monitoring the revenue and expenditure reports on a monthly basis to track the unfolding of each fiscal year. Expenditures have been allowed to grow provided that the revenues are available to support them. This approach has benefited the City from many different perspectives. It has allowed us to rebuild our financial position, pay for one-time large scale projects with cash, and provided the opportunity for the retooling of our operations.

Economic Factors and the Future

There are several economic factors that will continue to challenge the City. These include potential state revenue-sharing cuts, health insurance increases, pension costs, pre-funding of retiree health care (GASB 45), our overall millage rate, and state laws limiting the growth in property taxes. The 1978 Headlee Amendment and Proposal A passed in 1993 both limit growth to the rate of inflation. Headlee requires a rollback in the overall millage rate if total property values grow at a rate higher than inflation and Proposal A limits increases in individual property tax assessments to the rate of inflation.

Because we are a service provider, the majority of our costs are personnel related. As these costs increase, in part due to health care cost increases and general cost increases in our numerous service contracts, we continue to rely on our tax base to maintain services. We were very fortunate in receiving 4.75 new mills from our voters in 2003. Two of these mills were immediately put into an annual street resurfacing program. The remaining mills have been held in reserve to fund future cost increases.

Other factors that may/will affect our future finances include the final fate of state-shared revenues, the Michigan Department of Environmental Quality's decisions relative to our sanitary sewer system, the future of storm water management, and infrastructure investments. It is my sincere hope we can put off any major sanitary sewer expenditures until after our current Evergreen Farmington sewer debt is retired in 2010.

Contacting the City's Financial Management

This financial report is intended to provide citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, please contact the City's treasurer at 248.557.2600 ext. 227.

City of Lathrup Village, Michigan

Statement of Net Assets June 30, 2006

	Primary Government			Component Unit -
	Governmental	Business-type		Downtown
	Activities	Activities	Total	Development
				Authority
Assets				
Cash and investments (Note 3)	\$ 2,112,996	\$ 1,251,310	\$ 3,364,306	\$ 540,731
Receivables:				
Customers	-	439,693	439,693	-
Special assessment	79,831	-	79,831	-
Due from component unit (Note 5)	10,103	-	10,103	-
Due from other governmental units	231,586	-	231,586	-
Internal balances	758,990	(758,990)	-	-
Prepaid expenses and other assets	59,062	-	59,062	-
Bond issuance costs - Net of \$168,000 accumulated amortization (Note 1)	-	112,000	112,000	-
Capital assets - Net (Note 4):				
Nondepreciable capital assets	12,647,454	228,693	12,876,147	-
Depreciable capital assets - Net	<u>1,328,867</u>	<u>7,100,877</u>	<u>8,429,744</u>	<u>-</u>
Total assets	17,228,889	8,373,583	25,602,472	540,731
Liabilities				
Accounts payable	65,921	101,123	167,044	1,894
Accrued and other liabilities	194,190	29,482	223,672	-
Due to primary government (Note 5)	-	-	-	10,103
Noncurrent liabilities (Note 6):				
Due within one year	135,000	550,635	685,635	-
Due in more than one year	<u>241,848</u>	<u>1,501,352</u>	<u>1,743,200</u>	<u>-</u>
Total liabilities	<u>636,959</u>	<u>2,182,592</u>	<u>2,819,551</u>	<u>11,997</u>
Net Assets				
Invested in capital assets - Net of related debt	13,726,321	5,277,583	19,003,904	-
Restricted:				
Construction code activity (Note 2)	70,913	-	70,913	-
Streets and highways	616,641	-	616,641	-
Water and Sewer - Restricted for debt payments	-	401,934	401,934	-
Unrestricted	<u>2,178,055</u>	<u>511,474</u>	<u>2,689,529</u>	<u>528,734</u>
Total net assets	<u>\$ 16,591,930</u>	<u>\$ 6,190,991</u>	<u>\$ 22,782,921</u>	<u>\$ 528,734</u>

City of Lathrup Village, Michigan

Statement of Activities Year Ended June 30, 2006

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Unit
					Governmental Activities	Business-type Activities	Total	
Primary government:								
Governmental activities:								
General government	\$ 1,106,436	\$ 392,339	\$ 12,086	\$ -	\$ (702,011)	\$ -	\$ (702,011)	\$ -
Public safety	1,549,602	96,237	-	-	(1,453,365)	-	(1,453,365)	-
Public works	913,818	28,532	293,100	83,769	(508,417)	-	(508,417)	-
Recreation and culture	90,742	50,390	-	-	(40,352)	-	(40,352)	-
Interest on long-term debt	14,825	-	-	-	(14,825)	-	(14,825)	-
Total governmental activities	3,675,423	567,498	305,186	83,769	(2,718,970)	-	(2,718,970)	-
Business-type activities - Water and sewer	1,136,853	1,105,231	-	-	-	(31,622)	(31,622)	-
Total primary government	<u>\$ 4,812,276</u>	<u>\$ 1,672,729</u>	<u>\$ 305,186</u>	<u>\$ 83,769</u>	(2,718,970)	(31,622)	(2,750,592)	-
Component unit - Downtown Development Authority	<u>\$ 77,779</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	-	-	-	(77,779)
General revenues:								
Property taxes					2,908,033	566,579	3,474,612	223,120
State-shared revenues					395,429	-	395,429	-
Unrestricted investment earnings					143,449	19,850	163,299	6,397
Cell tower fees					174,029	-	174,029	-
Miscellaneous					39,175	-	39,175	-
Transfers					(106,386)	106,386	-	-
Total general revenues and transfers					3,553,729	692,815	4,246,544	229,517
Change in Net Assets					834,759	661,193	1,495,952	151,738
Net Assets - Beginning of year					15,757,171	5,529,798	21,286,969	376,996
Net Assets - End of year					<u>\$ 16,591,930</u>	<u>\$ 6,190,991</u>	<u>\$ 22,782,921</u>	<u>\$ 528,734</u>

City of Lathrup Village, Michigan

Governmental Funds Balance Sheet June 30, 2006

	Major Special Revenue Funds			Nonmajor Special Revenue Fund	Total
	General Fund	Major Streets Fund	Local Streets Fund	Capital Acquisition Fund	Governmental Funds
Assets					
Cash and investments (Note 3)	\$ 1,033,912	\$ 1,105,356	\$ -	\$ 316,928	\$ 2,456,196
Special assessment receivable	-	-	79,831	-	79,831
Due from other governmental units	112,007	32,886	22,501	-	167,394
Prepaid expenses and other assets	59,062	-	-	-	59,062
Due from other funds (Note 5)	788,534	64,083	527,744	320,956	1,701,317
Total assets	<u>\$ 1,993,515</u>	<u>\$ 1,202,325</u>	<u>\$ 630,076</u>	<u>\$ 637,884</u>	<u>\$ 4,463,800</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 60,422	\$ 3,167	\$ 345,532	\$ -	\$ 409,121
Accrued and other liabilities	190,706	-	-	-	190,706
Due to other funds (Note 5)	61,897	625,794	161,436	93,200	942,327
Deferred revenue (Note 1)	-	-	79,831	-	79,831
Total liabilities	313,025	628,961	586,799	93,200	1,621,985
Fund Balances					
Reserved for construction code activity (Note 2)	70,913	-	-	-	70,913
Unreserved - Designated for road construction	977,828	-	-	-	977,828
Unreserved, reported in:					
General Fund	631,749	-	-	-	631,749
Special Revenue Funds	-	573,364	43,277	544,684	1,161,325
Total fund balances	1,680,490	573,364	43,277	544,684	2,841,815
Total liabilities and fund balances	<u>\$ 1,993,515</u>	<u>\$ 1,202,325</u>	<u>\$ 630,076</u>	<u>\$ 637,884</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	13,976,321
State-shared revenue receivable to be collected next fiscal year, relating to State's sales tax year	74,295
Certain revenues were deferred and are expected to be collected over several years, and are not available to pay for current year expenditures	79,831
Accrued interest payable on long-term debt is not due and payable in the current period and is not reported in the funds	(3,484)
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(250,000)
Compensated absences are not due and payable in the current period and are not reported in the funds	(126,848)
Net assets of governmental activities	<u>\$ 16,591,930</u>

City of Lathrup Village, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2006

	Major Special Revenue Funds			Nonmajor Special Revenue Fund	Total Governmental Funds
	General Fund	Major Streets Fund	Local Streets Fund	Capital Acquisition Fund	
Revenue					
Property taxes	\$ 2,857,033	\$ -	\$ -	\$ -	\$ 2,857,033
Licenses and permits	224,997	-	-	-	224,997
Federal grants	8,558	-	-	-	8,558
State-shared revenues and grants	398,819	199,166	93,934	-	691,919
Special assessment revenue	-	-	10,803	-	10,803
Fines and forfeitures	80,086	-	-	-	80,086
Interest and rentals	155,682	51,399	831	11,913	219,825
Cell tower	174,029	-	-	-	174,029
Other	248,206	-	6,865	-	255,071
Total revenue	4,147,410	250,565	112,433	11,913	4,522,321
Expenditures					
Government services	449,302	-	-	81,885	531,187
Public safety	1,564,526	-	-	-	1,564,526
Public works	405,166	142,036	654,945	-	1,202,147
Administration	409,458	-	-	-	409,458
Recreation and culture	134,867	-	-	-	134,867
Buildings and grounds	195,428	-	-	-	195,428
Total expenditures	3,158,747	142,036	654,945	81,885	4,037,613
Excess of Revenue Over (Under) Expenditures	988,663	108,529	(542,512)	(69,972)	484,708
Other Financing Sources (Uses)					
Transfers in (Note 5)	-	-	583,667	84,729	668,396
Transfers out (Note 5)	(712,721)	(53,756)	(8,305)	-	(774,782)
Total other financing sources (uses)	(712,721)	(53,756)	575,362	84,729	(106,386)
Net Change in Fund Balances	275,942	54,773	32,850	14,757	378,322
Fund Balances - Beginning of year	1,404,548	518,591	10,427	529,927	2,463,493
Fund Balances - End of year	<u>\$ 1,680,490</u>	<u>\$ 573,364</u>	<u>\$ 43,277</u>	<u>\$ 544,684</u>	<u>\$ 2,841,815</u>

City of Lathrup Village, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds **\$ 378,322**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are recorded as capital assets	537,017
Governmental funds allocate the cost of capital assets over their estimated useful lives as depreciation	(206,840)
Proceeds from the sale of capital assets reported as revenue in the governmental funds; the statement of activities record a gain or loss included in general government expense	(29,856)
Certain revenues reported in the statement of activities in the current year will not provide current financial resources in the governmental funds until future years	73,104
Reduction of liability previously recorded for personal property tax litigation	51,000
Certain revenues reported in the statement of activities in previous years did not provide current financial resources in the governmental funds until the current year	(9,165)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	30,000
Long-term liabilities and accrued interest are not due and payable in the current period and are not reported in the fund	390
Decrease in accumulated employee sick and vacation pay is recorded when earned in the statement of activities	<u>10,787</u>

Change in Net Assets of Governmental Activities **\$ 834,759**

City of Lathrup Village, Michigan

Proprietary Funds Statement of Net Assets June 30, 2006

	Enterprise Fund - Water and Sewer Fund
Assets	
Current assets:	
Cash and investments (Note 3)	\$ 1,251,310
Receivables - Net	439,693
Due from other funds (Note 5)	2,742
Total current assets	1,693,745
Noncurrent assets:	
Bond issuance costs - Net of \$168,000 accumulated amortization (Note 1)	112,000
Nondepreciable capital assets (Note 4)	228,693
Depreciable capital assets - Net (Note 4)	7,100,877
Total noncurrent assets	7,441,570
Total assets	9,135,315
Liabilities	
Current liabilities:	
Accounts payable	101,123
Accrued and other liabilities	29,482
Due to other funds (Note 5)	761,732
Current portion of long-term debt (Note 6)	550,635
Total current liabilities	1,442,972
Noncurrent liabilities - Long-term debt - Net of current portion (Note 6)	1,501,352
Total liabilities	2,944,324
Net Assets	
Invested in capital assets - Net of related debt	5,277,583
Restricted for debt payments	401,934
Unrestricted	511,474
Total net assets	\$ 6,190,991

City of Lathrup Village, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2006

	Enterprise Fund - Water and Sewer Fund
Operating Revenue	
Sale of water	\$ 468,578
Sewage disposal charges	519,053
Meter charge revenue	37,568
Industrial surcharge	27,351
Penalties	48,144
Total operating revenue	1,100,694
Operating Expenses	
Cost of water	211,867
Cost of sewage disposal	285,425
Industrial surcharge	16,121
Operation and maintenance	233,003
General and administrative	46,434
Depreciation and amortization	250,416
Total operating expenses	1,043,266
Operating Income	57,428
Nonoperating Revenue (Expense)	
Property taxes	566,579
Interest income and other	24,387
Interest expense	(93,587)
Total nonoperating revenue	497,379
Income - Before operating transfers	554,807
Operating Transfers In (Note 5)	156,286
Operating Transfers Out (Note 5)	(49,900)
Change in Net Assets	661,193
Net Assets - Beginning of year	5,529,798
Net Assets - End of year	\$ 6,190,991

City of Lathrup Village, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2006

	Enterprise Fund - Water and Sewer Fund
Cash Flows from Operating Activities	
Receipts from customers	\$ 1,064,829
Payments to suppliers	(688,659)
Payments to employees	(97,148)
Other payments	(741)
Net cash provided by operating activities	278,281
Cash Flows from Noncapital Financing Activities	
Operating transfers from other funds	156,286
Operating transfers to other funds	(49,900)
Net cash provided by noncapital financing activities	106,386
Cash Flows from Capital and Related Financing Activities	
Proceeds from property tax levy	566,579
Purchase of capital assets	(228,693)
Principal and interest paid on capital debt	(654,415)
Net cash used in capital and related financing activities	(316,529)
Cash Flows from Investing Activities	
Interest earnings	24,387
Purchase of investment securities	(250,851)
Net cash used in investing activities	(226,464)
Net Decrease in Cash and Cash Equivalents	(158,326)
Cash and Cash Equivalents - Beginning of year	170,618
Cash and Cash Equivalents - End of year	\$ 12,292
Balance Sheet Classification of Cash and Cash Equivalents	
Cash and investments	\$ 1,251,310
Less amounts classified as investments	(1,239,018)
Total cash and cash equivalents	\$ 12,292
Reconciliation of Operating Income to Net Cash from Operating Activities	
Operating income	\$ 57,428
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation and amortization	250,416
Changes in assets and liabilities:	
Receivables	(35,865)
Inventory	1,985
Due from/to other funds	(741)
Accounts payable	5,058
Net cash provided by operating activities	\$ 278,281

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2006, there were no noncash investing, capital, or financing activities.

City of Lathrup Village, Michigan

Notes to Financial Statements June 30, 2006

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City of Lathrup Village, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Lathrup Village, Michigan:

Reporting Entity

The City of Lathrup Village, Michigan is governed by an elected five-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

Blended Component Unit - The Lathrup Village Building Authority is governed by a commission that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's public buildings.

Discretely Presented Component Unit - The Downtown Development Authority (DDA) is reported within the component unit column in the combined financial statements. It is reported in a separate column to emphasize that it is legally separate from the City. The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The DDA's governing body, consisting of eight individuals, is selected by the mayor with City Council approval. In addition, the DDA's budget is subject to approval by the City.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

City of Lathrup Village, Michigan

Notes to Financial Statements June 30, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and proprietary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

City of Lathrup Village, Michigan

Notes to Financial Statements June 30, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The City reports the following major governmental funds:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. General Fund activities are financed by revenue from general property taxes, state-shared revenue, and other sources.

Major Streets Fund - The Major Streets Fund accounts for maintenance and improvement activities for streets designated as "major" within the City. Funding is provided through state-shared gas and weight taxes.

Local Streets Fund - The Local Streets Fund accounts for maintenance and improvement activities for streets designated as "local" within the City. Funding is provided primarily through state-shared gas and weight taxes.

The City reports the following major proprietary fund:

Enterprise Fund - Water and Sewer Fund - The Water and Sewer Fund is used to account for the results of operations that provide water and sewer services to citizens that are financed primarily by a user charge for the provision of those services.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

City of Lathrup Village, Michigan

Notes to Financial Statements June 30, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

Properties are assessed as of December 31. The related property taxes are billed and become a lien on the following July 1 and are due on August 31 with the final collection date of February 28 before they are added to the county tax rolls.

The City's 2005 tax is levied and collectible on July 1, 2005 and is recognized as revenue in the year ended June 30, 2006, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2005 taxable valuation of the City totaled \$175 million (a portion of which is abated and a portion of which is captured by the DDA), on which taxes levied consisted of 14.4994 mills for operating purposes, 1.5830 mills for refuse services, and 3.2500 mills for drains. This resulted in approximately \$2,414,000 for operating, approximately \$264,000 for refuse services, and approximately \$567,000 for drains. These amounts are recognized in the respective General and Water and Sewer Funds financial statements as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

City of Lathrup Village, Michigan

Notes to Financial Statements June 30, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Inventories and Prepaid Items - Inventories in the Enterprise Fund are valued at cost, on a first-in, first-out basis. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Bond Issuance Costs - The City has capitalized costs associated with the issuance of long-term debt of the Enterprise Fund. These costs are being amortized over the life of the bonds using the effective interest rate method.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and building improvements	80 years
Infrastructure	10 to 50 years
Machinery, equipment, and vehicles	1 to 25 years
Utility system	50 years

Note 1 - Summary of Significant Accounting Policies (Continued)

Compensated Absences (Vacation and Sick Leave) - The City does not permit employees to accumulate earned but unused vacation pay benefits. There is a liability for unpaid accumulated sick leave since the City has a policy to pay out 50 percent of accumulated sick time when employees separate from service with the City. All vacation and sick pay is accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

City of Lathrup Village, Michigan

Notes to Financial Statements June 30, 2006

Note 2 - Stewardship, Compliance, and Accountability

Construction Code Fees - The City oversees building construction in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus generated since January 1, 2000 is as follows:

Cumulative surplus at July 1, 2005		\$	57,828
Current year building permit revenue			116,102
Related expenses:			
Direct costs	\$	74,344	
Estimated indirect costs		<u>28,673</u>	<u>103,017</u>
Current year surplus			<u>13,085</u>
Cumulative surplus at June 30, 2006		\$	<u><u>70,913</u></u>

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated two banks for the deposit of its funds. The investment policy adopted by the City Council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts, commercial paper, and CDs, but not the remainder of state statutory authority as listed above. The City's deposits and investment policies are in accordance with statutory authority.

City of Lathrup Village, Michigan

Notes to Financial Statements June 30, 2006

Note 3 - Deposits and Investments (Continued)

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$303,739 of bank deposits (certificates of deposit, checking and savings accounts), of which \$100,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Primary government:			
Bank investment pool - MBIA	\$ 587,007	AAA	Fitch's
Bank investment pool - Bank One	1,388,933	AAA	Moody's
Sweep account	1,113,480	AAA	Moody's
Component unit - Bank investment			
pool - Bank One	540,731	AAA	Moody's

City of Lathrup Village, Michigan

Notes to Financial Statements June 30, 2006

Note 4 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2005	Additions	Disposals and Adjustments	Balance June 30, 2006
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 256,508	\$ -	\$ (11,774)	\$ 244,734
Right-of-ways	12,402,720	-	-	12,402,720
Subtotal	12,659,228	-	(11,774)	12,647,454
Capital assets being depreciated:				
Infrastructure	5,523,242	434,525	-	5,957,767
Buildings	556,300	-	-	556,300
Machinery, equipment, and vehicles	1,036,326	102,492	(38,614)	1,100,204
Subtotal	7,115,868	537,017	(38,614)	7,614,271
Accumulated depreciation:				
Infrastructure	5,101,304	133,079	-	5,234,383
Buildings	236,353	10,918	(20,532)	226,739
Machinery, equipment, and vehicles	761,439	62,843	-	824,282
Subtotal	6,099,096	206,840	(20,532)	6,285,404
Net capital assets being depreciated	1,016,772	330,177	(18,082)	1,328,867
Net governmental activities capital assets	<u>\$ 13,676,000</u>	<u>\$ 330,177</u>	<u>\$ (29,856)</u>	<u>\$ 13,976,321</u>
Business-type Activities				
Capital assets not being depreciated -				
Construction in progress	\$ -	\$ 228,693	\$ -	\$ 228,693
Capital assets being depreciated:				
Utility system	10,573,660	-	-	10,573,660
Machinery and equipment	177,221	-	-	177,221
Vehicles	30,166	-	-	30,166
Subtotal	10,781,047	-	-	10,781,047
Accumulated depreciation:				
Utility system	3,307,020	211,177	-	3,518,197
Machinery and equipment	120,568	11,239	-	131,807
Vehicles	30,166	-	-	30,166
Subtotal	3,457,754	222,416	-	3,680,170
Net capital assets being depreciated	7,323,293	(222,416)	-	7,100,877
Net business-type capital assets	<u>\$ 7,323,293</u>	<u>\$ 6,277</u>	<u>\$ -</u>	<u>\$ 7,329,570</u>

City of Lathrup Village, Michigan

Notes to Financial Statements June 30, 2006

Note 4 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 33,702
Public safety	10,328
Public works	149,842
Recreation and culture	<u>12,968</u>

Total governmental activities	<u>\$ 206,840</u>
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Business-type activities - Water and sewer	<u>\$ 222,416</u>
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Construction Commitments - The City has one construction project that is still ongoing at June 30, 2006. The project relates to a compliance project by the Department of Environmental Quality-Water Bureau. The project is modifying the water retention tank which will enable maintenance personnel to perform tank operations at a remote site via the Internet. At year end, the City's commitments with contractors are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
DEQ retention tank control and instrumentation upgrade	<u>\$ 228,693</u>	<u>\$ 304,094</u>

City of Lathrup Village, Michigan

Notes to Financial Statements June 30, 2006

Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
General Fund	Local Streets Fund	\$ 80,790
	Capital Acquisition Fund	93,200
	Water and Sewer Fund	<u>614,544</u>
	Total General Fund	788,534
Major Streets Fund	General Fund	61,897
	Water and Sewer Fund	<u>2,186</u>
	Total Major Streets Fund	64,083
Local Streets Fund	Major Streets Fund	527,744
Capital Acquisition Fund	Major Streets Fund	98,050
	Local Streets Fund	77,904
	Water and Sewer Fund	<u>145,002</u>
	Total Capital Acquisition Fund	<u>320,956</u>
	Subtotal - Governmental funds	1,701,317
Water and Sewer Fund	Local Streets Fund	<u>2,742</u>
	Total	<u>\$ 1,704,059</u>
Receivable Fund	Payable Fund	Amount
Due to/from Primary Government and Component Units		
Primary government - General	Component unit - DDA	<u>\$ 10,103</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

City of Lathrup Village, Michigan

Notes to Financial Statements June 30, 2006

Note 5 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund	Local Streets Fund	\$ 542,935
	Capital Acquisition Fund	13,500
	Water and Sewer Fund	<u>156,286</u>
	Total General Fund	712,721
Major Streets Fund	Local Streets Fund	40,732
	Capital Acquisition Fund	<u>13,024</u>
	Total Major Streets Fund	53,756
Local Streets Fund	Capital Acquisition Fund	<u>8,305</u>
	Subtotal from governmental funds	774,782
Water and Sewer Fund	Capital Acquisition Fund	<u>49,900</u>
	Total	<u><u>\$ 824,682</u></u>

The transfers from the General Fund to the Local Streets Fund and Water and Sewer Fund represent the use of unrestricted resources to finance those programs, in accordance with budgetary authorizations; the transfer from the Major Streets Fund to the Local Streets Fund represents the sharing of gas and weight tax revenues, in accordance with Act 51. The transfer from the Water and Sewer Fund to the Capital Acquisition Fund represents the City setting aside money for the future purchase of water and sewer capital assets. The transfer from the General Fund, Major Streets Fund, and Local Streets Fund to the Capital Acquisition Fund represents the City setting aside resources for the purchase of governmental fund capital assets.

City of Lathrup Village, Michigan

Notes to Financial Statements June 30, 2006

Note 6 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government.

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Beginning Balance	Reductions *	Ending Balance	Due Within One Year
Governmental Activities					
General obligation bonds:					
Building Authority Bond:					
Amount of issue: \$450,000	5.00% -				
Maturing through 2012	5.80%	\$ 280,000	\$ (30,000)	\$ 250,000	\$ 35,000
Other long-term obligations:					
Estimated personal property tax multiplier liability		51,000	(51,000)	-	-
Accumulated employee benefit		137,635	(10,787)	126,848	100,000
Total governmental activities		<u>\$ 468,635</u>	<u>\$ (91,787)</u>	<u>\$ 376,848</u>	<u>\$ 135,000</u>
Business-type Activities					
County contract obligation:					
Amount of issue: \$6,075,000	3.65% -				
Maturing through 2010	4.10%	\$ 2,580,000	\$ (555,000)	\$ 2,025,000	\$ 545,000
County contract obligation:					
Amount of issue: \$54,091					
Maturing through 2010	1.943%	32,815	(5,828)	26,987	5,635
Total business-type activities		<u>\$ 2,612,815</u>	<u>\$ (560,828)</u>	<u>\$ 2,051,987</u>	<u>\$ 550,635</u>

* There were no additions in the current year.

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 35,000	\$ 13,008	\$ 48,008	\$ 550,635	\$ 71,729	\$ 622,364
2008	35,000	11,135	46,135	541,509	50,255	591,764
2009	40,000	9,090	49,090	627,286	26,591	653,877
2010	40,000	6,870	46,870	332,557	6,927	339,484
2011	50,000	4,325	54,325	-	-	-
2012	50,000	1,450	51,450	-	-	-
Total	<u>\$ 250,000</u>	<u>\$ 45,878</u>	<u>\$ 295,878</u>	<u>\$ 2,051,987</u>	<u>\$ 155,502</u>	<u>\$ 2,207,489</u>

City of Lathrup Village, Michigan

Notes to Financial Statements June 30, 2006

Note 7 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefits provided to employees and participates in the Michigan Municipal League (MML) risk pool for claims relating to property loss, torts, errors and omissions, and employee injuries. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 8 - Defined Benefit Pension Plan

Plan Description - The City participates in the Michigan Municipal Employees' Retirement System (the "System"), an agent multiple-employer defined benefit pension plan that covers all employees of the City. The System provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy - The obligation to contribute to and maintain the System for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 3 percent of the first \$4,200 of gross wages and 5 percent thereafter for nonunion employees and police and 6 percent of gross wages for employees covered under the Municipal Association of Public Employees contract.

City of Lathrup Village, Michigan

Notes to Financial Statements June 30, 2006

Note 8 - Defined Benefit Pension Plan (Continued)

Annual Pension Cost - For the year ended June 30, 2006, the City's annual pension cost of \$85,673 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry actual age cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent to 12.90 percent per year depending on age, attributable to seniority/merit, and (c) the assumption that benefits will increase 2.5 percent per year annually after retirement. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. Unfunded actuarial liability is amortized over a period of 30 years.

	Fiscal Year Ended June 30		
	2006	2005	2004
Annual pension costs (APC)	\$ 85,673	\$ 56,120	\$ 49,777
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
	Actuarial Valuation as of December 31		
	2005	2004	2003
Actuarial value of asset	\$ 4,968,513	\$ 4,797,216	\$ 4,600,319
Actuarial accrued liability (AAL)			
(entry age)	\$ 5,569,000	\$ 5,290,500	\$ 4,901,871
Underfunded AAL	\$ (600,487)	\$ (493,284)	\$ (301,552)
Funded ratio	89.22%	90.68%	93.85%
Covered payroll	\$ 1,016,734	\$ 1,145,040	\$ 1,160,855

Note 9 - Other Postemployment Benefits

The City provides health care to all full-time employees upon retirement, in accordance with labor contracts. Currently, nine retirees are eligible. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with a contribution required by the participant's dependents. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due; this totaled approximately \$70,000. These benefits are paid annually from the General Fund.

City of Lathrup Village, Michigan

Notes to Financial Statements June 30, 2006

Note 9 - Other Postemployment Benefits (Continued)

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2010.

Note 10 - Joint Venture

The City is a member of Southeastern Oakland County Resource Recovery Authority (the “Authority”), which consists of 12 municipalities in Oakland County. The Authority provides refuse disposal services for the benefit of member municipalities. The City appoints one member to the joint venture’s governing board, which approves the annual budget. The participating communities provide annual funding for its operations. During the current year, the City expensed approximately \$83,000 related to payments to the Authority. The City is unaware of any circumstances that would cause any significant additional financial benefit or burden to the participating governments in the near future. Complete financial statements for the Authority can be obtained from the administrative offices at 3910 Webster, Royal Oak, MI 48073.

The City is a member of Southeastern Oakland County Water Authority (the “Water Authority”), which consists of 11 municipalities in Oakland County. The City purchases water from the Water Authority. The City appoints one member to the joint venture’s governing board, which approves the annual budget. The participating communities provide annual funding for its operations. During the current year, the City expensed approximately \$211,000 related to payments to the Water Authority. The City is unaware of any circumstances that would cause any significant additional financial benefit or burden to the participating governments in the near future. Complete financial statements for the Water Authority can be obtained from the administrative offices at 3910 Webster, Royal Oak, MI 48073.

Required Supplemental Information

City of Lathrup Village, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Amended Budget Favorable (Unfavorable)
Revenue				
Property Taxes				
City taxes	\$ 2,522,896	\$ 2,413,642	\$ 2,413,642	\$ -
Refuse collection taxes	275,442	263,648	263,648	-
Tax penalties	13,200	67,500	80,219	12,719
Tax administration fee	81,000	99,524	99,524	-
Total property taxes	2,892,538	2,844,314	2,857,033	12,719
Licenses and Permits				
Building permits	37,000	89,890	95,423	5,533
Electrical, heating, and plumbing	13,400	19,874	20,679	805
Cable television franchise fee	60,049	60,049	76,074	16,025
Other	9,100	31,433	32,821	1,388
Total licenses and permits	119,549	201,246	224,997	23,751
Federal Sources - Community Development				
Block Grant	6,300	8,058	8,558	500
State Sources				
State-shared revenue	400,000	400,000	395,291	(4,709)
State grants	3,291	3,528	3,528	-
Total State sources	403,291	403,528	398,819	(4,709)
Fines and Forfeitures - District Court				
	25,000	50,000	80,086	30,086
Interest and Rent				
Interest	48,000	123,000	79,306	(43,694)
Rent	76,717	66,349	76,376	10,027
Total interest and rent	124,717	189,349	155,682	(33,667)
Other Revenue				
Recreation special programs	28,000	46,874	50,390	3,516
Insurance - Retirees' spouses	18,000	27,224	29,251	2,027
Sale of abandoned property	-	35,500	35,500	-
Police activity reimbursement	5,000	13,359	16,151	2,792
Sidewalk	-	7,814	12,876	5,062
Cell tower	61,311	175,182	174,029	(1,153)
Other	14,939	86,690	104,038	17,348
Total other revenue	127,250	392,643	422,235	29,592
Total revenue	3,698,645	4,089,138	4,147,410	58,272

City of Lathrup Village, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Expenditures				
Government Services				
Property and liability insurance	\$ 61,776	\$ 51,428	\$ 51,428	\$ -
Unemployment insurance	8,256	4,200	1,641	2,559
Workers' compensation insurance	1,282	2,354	2,354	-
Office supplies	7,688	7,688	5,995	1,693
Tax tribunal	2,101	19,293	19,293	-
Building trade inspection	39,591	67,708	67,156	552
Cable television	42,025	42,025	43,305	(1,280)
Auditing and accounting	14,977	14,977	14,977	-
Government operations	35,500	35,500	34,793	707
Telephone	6,923	6,923	7,749	(826)
Vehicle	2,100	2,100	2,397	(297)
Community development	9,800	5,500	5,301	199
City planning	3,075	2,100	396	1,704
City beautification	2,601	2,601	2,070	531
Printing and postage	22,425	18,659	16,413	2,246
Library payment	162,951	163,318	163,318	-
Rent	4,200	-	-	-
Miscellaneous	16,072	12,000	10,716	1,284
Total government services	443,343	458,374	449,302	9,072
Public Safety				
Salaries:				
Full-time	491,352	466,950	454,793	12,157
Part-time	48,000	58,255	67,983	(9,728)
Employee taxes and benefits	261,283	297,908	301,062	(3,154)
Overtime salaries	30,000	59,888	59,569	319
Insurance:				
Property and liability	19,570	19,570	19,570	-
Unemployment insurance	5,504	2,250	1,132	1,118
Workers' compensation	13,658	19,355	19,355	-

City of Lathrup Village, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Expenditures (Continued)				
Public Safety (Continued)				
Office supplies	\$ 6,289	\$ 6,953	\$ 7,605	\$ (652)
Memberships and meetings	2,311	4,052	3,821	231
Police reserves	1,025	1,440	1,367	73
Civil defense and training	3,588	2,741	4,427	(1,686)
Firearms training	3,075	1,200	2,522	(1,322)
Crime prevention	3,690	3,280	3,372	(92)
Animal control	9,738	5,078	5,651	(573)
MJTC Grant	3,178	3,178	3,355	(177)
Fire service contract	530,886	530,886	530,886	-
Police uniforms and cleaning	10,763	10,597	11,126	(529)
Telephone	14,840	14,840	15,346	(506)
Radio communication	11,275	6,136	5,429	707
Equipment maintenance	2,563	1,132	1,032	100
Vehicle	24,753	36,221	37,800	(1,579)
Miscellaneous expenditures	3,152	7,323	7,323	-
Total public safety	1,500,493	1,559,233	1,564,526	(5,293)
Department of Public Services				
Salaries:				
Full-time	43,603	50,245	49,032	1,213
Part-time	11,800	8,212	8,212	-
Employee taxes and benefits	23,934	38,177	36,780	1,397
Office supplies	666	300	161	139
Equipment maintenance	35,000	43,598	44,918	(1,320)
Park maintenance	2,636	2,636	1,983	653
Sidewalk maintenance	4,203	3,346	5,157	(1,811)
Leaf collection	23,877	23,426	18,591	4,835
SOCRRA	109,287	84,608	84,546	62
Tringali contract	162,800	153,501	155,786	(2,285)
Total Department of Public Services	417,806	408,049	405,166	2,883

City of Lathrup Village, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Expenditures (Continued)				
Administration				
Salaries:				
Full-time	\$ 229,108	\$ 229,108	\$ 227,460	\$ 1,648
Part-time	16,500	-	-	-
Employee taxes and benefits	116,354	116,354	91,026	25,328
Code enforcement:				
Legal	6,780	6,780	6,793	(13)
Elections	6,863	6,863	6,827	36
Data processing and assessments	37,505	37,505	33,092	4,413
Legal services	44,909	45,589	43,794	1,795
Board of Review	615	466	466	-
Total administration	458,634	442,665	409,458	33,207
Recreation and Culture				
Part-time salaries	16,913	18,500	17,596	904
Fringe benefits	1,501	2,345	2,336	9
Special programs	128,392	128,270	111,595	16,675
Bus transportation	5,372	4,035	3,340	695
Total recreation and culture	152,178	153,150	134,867	18,283
Buildings and Grounds				
Salaries - Full-time	46,339	44,573	44,516	57
Employee taxes and benefits	18,629	20,413	17,559	2,854
Utilities	50,225	56,556	53,532	3,024
Building maintenance and repair	36,158	25,238	26,461	(1,223)
Building authority lease	45,495	45,215	45,215	-
Equipment maintenance	3,759	1,860	602	1,258
Parking lot and grounds	7,800	5,111	7,543	(2,432)
Total building and grounds	208,405	198,966	195,428	3,538
Contingencies and Capital Fund				
	683,981	712,721	712,721	-
Total expenditures	3,864,840	3,933,158	3,871,468	61,690
Excess of Revenue Over (Under)				
Expenditures	(166,195)	155,980	275,942	119,962
Fund Balance - Beginning of year				
	1,404,548	1,404,548	1,404,548	-
Fund Balance - End of year				
	<u>\$ 1,238,353</u>	<u>\$ 1,560,528</u>	<u>\$ 1,680,490</u>	<u>\$ 119,962</u>

City of Lathrup Village, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds Year Ended June 30, 2006

	Major Streets Fund			
	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Revenue				
State-shared revenue	\$ 199,619	\$ 199,619	\$ 199,166	\$ (453)
Investment interest	<u>15,646</u>	<u>15,646</u>	<u>51,399</u>	<u>35,753</u>
Total revenue	215,265	215,265	250,565	35,300
Expenditures				
Salaries:				
Full-time	44,533	42,065	40,919	1,146
Administration	4,161	4,161	4,111	50
Employee taxes and benefits	21,426	28,111	26,725	1,386
Audit and accounting	3,605	3,605	3,605	-
Public service building	13,000	13,000	10,703	2,297
Roads maintenance	19,096	16,500	14,994	1,506
Roadside maintenance	7,426	7,426	6,672	754
Traffic controls	31,827	22,500	18,924	3,576
Snow and ice removal	5,305	2,394	2,394	-
Forestry	11,000	11,350	11,350	-
Roadside parks	2,652	-	-	-
Administration and engineering	-	1,639	1,639	-
Transfers to other funds	<u>53,756</u>	<u>53,756</u>	<u>53,756</u>	<u>-</u>
Total expenditures	<u>217,787</u>	<u>206,507</u>	<u>195,792</u>	<u>10,715</u>
Excess of Revenue Over (Under)				
Expenditures	(2,522)	8,758	54,773	46,015
Fund Balance - Beginning of year	<u>518,591</u>	<u>518,591</u>	<u>518,591</u>	<u>-</u>
Fund Balance - End of year	<u>\$ 516,069</u>	<u>\$ 527,349</u>	<u>\$ 573,364</u>	<u>\$ 46,015</u>

City of Lathrup Village, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds (Continued) Year Ended June 30, 2006

	Local Streets Fund			
	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Revenue				
State-shared revenue	\$ 94,556	\$ 94,556	\$ 93,934	\$ (622)
Special assessment revenue	-	-	10,803	10,803
Interest income	-	-	831	831
Miscellaneous revenue	20,427	20,427	6,865	(13,562)
Operating transfers from other funds	554,927	583,667	583,667	-
Total revenue	669,910	698,650	696,100	(2,550)
Expenditures				
Salaries:				
Full-time	36,712	38,600	37,567	1,033
Administration	4,161	4,161	4,111	50
Employee taxes and benefits	19,643	26,274	25,028	1,246
Audit and accounting	2,652	2,652	2,652	-
Public service building	8,487	8,487	7,534	953
Roads maintenance	556,123	558,319	547,319	11,000
Roadside maintenance	7,426	7,426	4,672	2,754
Traffic controls	10,609	10,609	12,282	(1,673)
Snow and ice removal	5,305	2,395	2,395	-
Forestry	10,670	11,385	11,385	-
Operating transfers to other funds	8,305	8,305	8,305	-
Total expenditures	670,093	678,613	663,250	15,363
Excess of Revenue Over (Under) Expenditures	(183)	20,037	32,850	12,813
Fund Balance - Beginning of year	10,427	10,427	10,427	-
Fund Balance - End of year	<u>\$ 10,244</u>	<u>\$ 30,464</u>	<u>\$ 43,277</u>	<u>\$ 12,813</u>

City of Lathrup Village, Michigan

Notes to Required Supplemental Information June 30, 2006

Note 1 - Reconciliation of Budgeted Amounts to Basic Financial Statements

The budgetary comparison schedules for the General and Major Special Revenue Funds are presented on the same basis of accounting used in preparing the adopted budget. Following is a reconciliation of the budgetary comparison schedule to the governmental funds (statement of revenue, expenditures, and changes in fund balances):

	General Fund		Major Streets Fund		Local Streets Fund	
	Total Revenue	Total Expenditures	Total Revenue	Total Expenditures	Total Revenue	Total Expenditures
Amounts per operating statement	\$ 4,147,410	\$ 3,158,747	\$ 250,565	\$ 142,036	\$ 112,433	\$ 654,945
Operating transfers budgeted as revenue and expenditures	-	712,721	-	53,756	583,667	8,305
Amounts per budget statement	<u>\$ 4,147,410</u>	<u>\$ 3,871,468</u>	<u>\$ 250,565</u>	<u>\$ 195,792</u>	<u>\$ 696,100</u>	<u>\$ 663,250</u>

Note 2 - Budgetary Information

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds except that operating transfers have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)." All annual appropriations lapse at fiscal year end; encumbrances are not included as expenditures. During the year, the budget was amended in a legally permissible manner.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

City of Lathrup Village, Michigan

Notes to Required Supplemental Information June 30, 2006

Note 2 - Budgetary Information (Continued)

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. On or before the third Monday in April, the City shall submit to the City Council a recommended budget covering the next fiscal year.
2. A public hearing on the proposed budget shall be held before its final adoption at such time and place as the City Council shall direct.
3. The budget shall be adopted no later than the third Monday in May of each year.
4. The budget is adopted by department and fund on an activity basis. Subsequent amendments thereto shall be submitted from time to time by the City administrator for their consideration.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the City did not incur any expenditures that were significantly in excess of the amounts budgeted.



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September 8, 2006

To the Honorable Mayor and Members
of the City Council
City of Lathrup Village
27400 Southfield Road
Lathrup Village, MI 48076

Dear Mayor and Council Members:

We have recently completed the audit of the basic financial statements of the City of Lathrup Village for the year ended June 30, 2006. In addition to our audit report, we offer the following comments and recommendations for your consideration:

Upcoming Reporting Changes

The Governmental Accounting Standards Board has released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits.

The new pronouncement will require a valuation of the obligation to provide retiree health care benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, any underfunding must be reported as a liability on the government-wide statement of net assets. Since the City has less than 100 participants, this valuation will not need to be performed by an actuary. This statement is effective for the City's fiscal year ending June 30, 2009.

Currently the City does not have any funds set aside to fund this liability. We would encourage the City to establish a separate Special Revenue Fund under PA ACT 149 of 1999. This would allow for the investment of the designated funds in accordance with the Pension Act and allow for the potential of a greater return on the related investments.

State-shared Revenue

Municipalities in Michigan have and will continue to feel the effects of the slowdown in the state's economy. State-shared revenue totaled approximately \$395,000 in 2006 and accounted for 9.5 percent of the City's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue-sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions to the revenue-sharing line item in the State's budget, revenue-sharing payments for the last several years have been lower than anticipated.



A worldwide association of independent accounting firms

September 8, 2006

Although sales tax revenue would support an increase to state-shared revenue payments, the State's budget situation remains troublesome at best. It is generally acknowledged that the State's budget woes will continue for several more years. As a result, we continue to urge the City to be conservative in its estimation of state-shared revenue as this line item in the State's budget remains vulnerable.

If the State were to eliminate the statutory portion of revenue sharing (as the constitutional portion cannot be modified without a change to the State's constitution), the City has approximately \$97,000 at risk in its General Fund budget based on the State's budget for the 2006-2007 year. We will continue to update the City as developments occur. The statutory formula expires in 2007 and requires action by the Legislature.

We will continue to update the City as developments occur.

Property Taxes

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is as follows:

2006	3.3%	2001	3.2%
2005	2.3%	2000	1.9%
2004	2.3%	1999	1.6%
2003	1.5%	1998	2.7%
2002	3.2%	1997	2.8%

As indicated above, growth in existing property is significantly limited due to Proposal A to an average of 2.48 percent annually over the past 10 years. This factor should be considered when the City is involved in long-term financial planning.

The Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the City. In general terms, if growth in the City's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the City to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the City's existing property tax base was less than inflation, the Headlee Amendment allowed the City to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back." However, subsequent to the passage of Proposal A, the City is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation. As a result, despite general operating charter mills of 20, currently the Headlee limited mills are 16.2589 (a reduction of over 18 percent).

September 8, 2006

Act 51

Surplus Transfer - Public Act 51 has been modified to allow local governments to transfer monies from their Major Roads Fund to their Local Roads Fund if an excess exists. As a condition of the transfer, the amended law requires that certain conditions be met including the adoption of an asset management process for the Major and Local Roads systems. It is important to note that these provisions sunset December 31, 2008. Without an extension of this provision, a transfer from the Major Roads Fund to the Local Roads Fund can only be done to the extent that local revenues exist in the Major Roads Fund. There is also currently legislation proposed that would allow for the combination of the Major Roads Fund and the Local Roads Fund if certain conditions are met.

Annual Transfer - The City currently only transfers approximately 20 percent of the Act 51 funds received from the State by the Major Roads Fund on an annual basis to the Local Roads Fund. If additional funds are needed in the Local Roads Fund, additional amounts up to 100 percent of the Major Roads Act 51 revenue may be transferred from the Major Roads Fund. In order to transfer more than 25 percent of the funds, the City would need to adopt a resolution with a copy to the Michigan Department of Transportation setting forth all of the following:

- a) A list of the major streets in the City
- b) A statement that the City is adequately maintaining its major streets
- c) The dollar amount of the transfer
- d) The local streets to be funded with the transfer

Internal Control and Fraud Prevention

Designing and maintaining a sound system of internal controls over assets, as well as fraud prevention and detection, are on the forefront in today's accounting environment. As part of our audit of the City's 2005 financial statements, we performed additional procedures as required by Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit* (SAS 99). While SAS 99 does not change the focus of the financial statement audit to a "fraud audit," the new standard incorporates a change in mindset for auditors to search for and identify significant fraud risk factors. SAS 99 requires auditors to perform specific procedures to search for significant fraud risk factors, including inquiries with members of the City Council, administration, and other employees throughout the City; a retrospective review of accounting estimates; a detailed review of all journal entries; and other related procedures.

The City Council should be pleased to note that the additional inquiries and testing that were performed did not reveal any material internal control issues to be addressed by the City.

To the Honorable Mayor and Members
of the City Council
City of Lathrup Village

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September 8, 2006

We would like to thank the Council for the opportunity to serve as auditors for the City. We would also like to express our appreciation for the courtesy and cooperation extended to us by the administration during the audit. If you would like to discuss any of these matters, or would like assistance in their implementation, please contact us.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink that reads "Leslie J. Pulver". The signature is written in a cursive style with a large, stylized "L" and "P".

Leslie J. Pulver

A handwritten signature in black ink that reads "Pamela L. Jadach". The signature is written in a cursive style with a large, stylized "P" and "J".

Pamela L. Jadach